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SENSITIVE

E.O. 12958: N/A
TAGS: ENRG EINV EPET TU
SUBJECT: TURKEY FUMBLES BOTAS GAS CONTRACT TRANSFER

REF: (a) ANKARA 5080, (b) 04 ANKARA 6797

Sensitive But Unclassified. Please handle accordingly.

¶1. (SBU) Summary: In a complicated tale of intrigue and ineptitude, an apparent effort by the Turkish state-owned pipelines company BOTAS to demonstrate that the 2001 law requiring transfer of import contracts to the private sector was unworkable blew up in the company's face as the press leveled charges of corruption and insider dealing against the company and Turkish politicians. The fiasco showed the depth of Turkey's difficulties in liberalizing its domestic energy markets and opening them up to foreign and domestic private investment. Turkey will need major new investment in its energy sector over the coming years, but needs help, including from foreign companies, in designing an energy regime that will meet investors' needs. End Summary.

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Contract Release Model Fails - As Expected - Even Desired
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¶2. (SBU) As the GOT seeks to liberalize Turkey's domestic energy markets, finding a practical way to get the GOT and its wholly-owned Pipelines Company BOTAS out of the natural gas import business has been a major challenge. A key issue has been the model for transferring BOTAS's contracts with foreign suppliers to private companies. One option for BOTAS has been whether it should "release" its existing purchase "contracts" to private sector companies -- leaving contract terms unchanged vis a vis the foreign supplier. The second has been for BOTAS to auction the "volumes" those contracts represent, leaving the winners to negotiate new contracts and terms with the foreign supplier.

¶3. (SBU) The "contract release" model was supported by the World Bank, and codified in the 2001 Natural Gas Market Law, which targeted the transfer to the private sector of 80% of BOTAS' import contracts by 2009. This goal was widely viewed as unachievable, principally because it was believed suppliers would be unwilling to switch their counterparty from the GOT to a private company without a sovereign guarantee. Reflecting misgivings about the law within BOTAS and the GOT, the release program has been "underway" for over one year, postponed four times, and subject to much debate. Like BOTAS, private companies generally supported a "volume release" that allowed for the negotiation of new terms with the foreign supplier as more logical and doable.

¶4. (SBU) Seeking to enforce the 2001 law, Turkey's Energy Markets Regulatory Agency (EMRA) pushed BOTAS hard to proceed with contract releases. In 2004, EMRA fined BOTAS for not carrying out the process in a timely way. In order to comply with EMRA's requirements, but perhaps also to demonstrate the unfeasibility of the contracts model and force a change to the 2001 law, BOTAS conducted its first contract transfer tender on November 30. As many predicted (and as BOTAS officials told us later they had expected), the tender failed miserably -- but not in the way BOTAS may have expected. Both BOTAS and the process ended up tarnished and burned by the gamble.

¶5. (SBU) Rather than fail to sell any of the contracts, BOTAS to its surprise succeeded in finding buyers for 16 lots out of the total tender amount of 64 lots of gas, initially set as a target corresponding to 64% of Turkey's 25 BCM annual natural gas imports, tendered. Contracts with Nigeria, Algeria, Iran and Russia's Blue Stream and West-2 line failed to find takers because suppliers refused to agree to switch from BOTAS to a private company. Surprisingly, however, Gazprom certified four Turkish and foreign companies -- Shell, Enerco, Avrasya and Bosphorus Gas -- as eligible to bid on the contract for one-half of Russian West line, the Turusgaz line, for 4 BCM of natural gas. Out of the four bidders Gazprom certified to participate in the tender,

Shell was the highest bidder, offering $2.0 million for a single lot. Shell's bid was followed by Bosphorus Gas, known to have a partnership relation with Gazprom, which offered $1.8 billion per lot for 3 lots. Enerco won 10 lots, with a $1.6 million bid per lot, while Avrasya obtained 2 lots with a $910,000 bid per lot.

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But BOTAS and the GOT Tarnished in the Process
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¶6. (SBU) The second surprise for BOTAS was a firestorm of press allegations that there had been collusion between Gazprom, GOT officials, and the Turkish companies (excepting Shell) that participated in the tender process. In particular, it was alleged that Enerco (which won the most lots at a relatively low price) used relationships between its owners and PM Erdogan and his political associates to secure the permission from Gazprom to participate in the tender. (Erdogan and Putin, the story went, cooked up the deal at their November 17 meeting in Samsun to open the Blue Stream pipeline). Also, the fact that Bosphorus Gas is 40% owned by Gazprom suggested that there had been improper collusion in its case. Furthermore, the entire process was assailed by economic nationalists as granting privileges to a foreign entity -- since Gazprom was able to "choose" its Turkish counterparts -- that were reminiscent of the Ottoman-era capitulations.

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Comment
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¶7. (SBU) As Turkish Energy Under Secretary Sami Demirbilek told DAS Bryza in August (ref a), Turkey is flailing and failing as it tries to figure out how to manage a liberal energy market. Its home-grown mechanisms, even with the advice of the World Bank, have not had private sector input and therefore do not seem to be working out. As Demirbilek told Bryza, this offers an opportunity for foreign companies who want to take advantage of the opportunities in Turkey to engage with the GOT to help it shape its new mechanisms - drawing on the companies' experience with what has worked in other countries.
Wilson